



Southern New Jersey Office Market

A Strong Finish to 2022 Gives Hope to 2023 Prospects

The Southern New Jersey office market ended the fourth quarter on a busy note, which drove vacancies to new lows. Much of the activity was a combination of renewals and some relocations to higher-quality space. Downsides and space givebacks were recorded; however, the deals completed in 4Q22 bodes well for solid occupancy levels moving forward. Inventory reduction derived from industrial conversions is helping right-size the market's inventory. The sale of 3000 Leadenhall Road to The Carlyle Group will remove nearly 376,000 square feet of sublet space. Other conversion transactions are taking place; however, many are paused or being re-traded due to rising interest rates and changing economic conditions.

The market's vacancy rate continues to decline further, dropping 40 basis points quarter-over-quarter and 420 basis points year-over-year to settle at 14.9%, the lowest level recorded since 2017. Gains made in Voorhees and Marlton lifted quarterly absorption to 60,728 square feet. Specifically, a large withdrawal at 1007 Laurel Oak Road in Voorhees and a new 64,000 SF tenant moving into 3 E Stow Road in Marlton were the most significant contributors to quarterly absorption. In total, Southern New Jersey had 399,913 square feet of absorption in 2022. Notable activity is being reported in Cherry Hill and other major submarkets, despite minimal shifts in occupied space. The performance of Class C properties in the fourth quarter of 2022 was a drag to a market that otherwise had a commendable quarter and year. Negative 86,138 square feet of quarterly absorption showcases the current flight-to-quality trend observed since early 2020.

Current Conditions

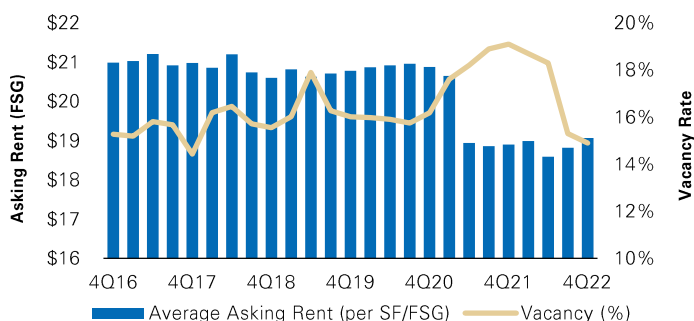
- Significant space givebacks in Class C offices highlight ongoing flight-to-quality trends
- Medical and cannabis users have become larger players
- Occupancy levels remain high, but shadow space is noticeable throughout the market

Market Summary

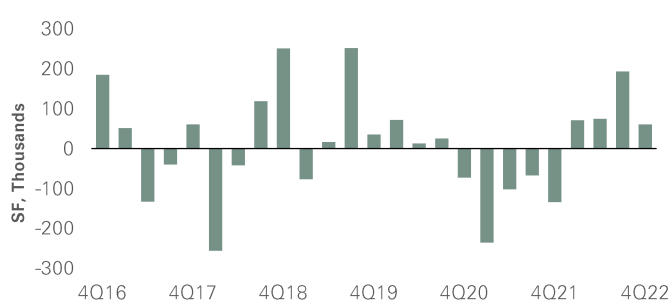
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.8M	16.8M	16.8M	↓
Vacancy Rate	14.9%	15.3%	19.1%	→
Quarterly Net Absorption (SF)	60,728	193,377	(134,169)	→
Average Asking Rent/SF	\$19.07	\$18.82	\$18.90	→
Under Construction (SF)	0.0	0.0	0.0	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2022

One of the most significant transactions of the quarter was BL Manager LLC's lease extension for its 30,240-square-foot office at 523 Fellowship Road in Mt. Laurel. OceanFirst Bank N.A. leased 18,222 SF at 350 Fellowship Road in Mount Laurel. Fox & Roach LP extended its 6,165-square-foot lease at 1025 Briggs Road in Mt. Laurel, and BBC Law leased 2,890 square feet at 525 W. Lincoln Drive in Marlton.

The decreasing level of available space gave landlords the opportunity to raise rents in the fourth quarter. Southern New Jersey's average asking rate of \$19.07/SF is the first time it has peaked over \$19.00/SF since the second quarter of 2021. The general cost of office space was \$18.82/SF and \$18.90/SF in the third quarter of 2022 and the fourth quarter of 2021, respectively. Given the high cost of tenant improvements and increased occupancy levels, it is likely that landlords will maintain or slightly raise asking rents in the future. Given higher demand, the product that might see the most significant rate increases would be mid-rise Class A offices.

Industrial conversions may continue to be a major contributor to vacancy and inventory reduction in Southern New Jersey. Additionally, cannabis retailers will likely impact absorption and

availability figures soon, given that the State of New Jersey recently concluded its latest licensing round. Cannabis operators are particularly interested in finding single-story office space for their dispensaries. However, the feasibility of these proposals faces numerous roadblocks. Zoning laws in some jurisdictions limit cannabis sales to specific districts or prohibit dispensaries within a certain distance of residential areas or schools. Given the risks of housing a heavily regulated product and the frequency of customers, landlords may be hesitant to accept this use, even if zoning makes operations permissible. Medical groups are also in the market, but their viability for landlords is higher due to fewer zoning headwinds and suitability for existing offices.

Entering 2023, expect activity to stay near current levels. The activity for architectural firms (a leading indicator for new deals) is exceptionally high due to multiple groups' space planning for future offices. Southern New Jersey's excellent location for logistics services will ensure that conversions will be considered for vacant, second-generation offices. Due to rising interest rates and the high cost of retrofitting older buildings, many projects could be postponed or altered.

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Cherry Hill	3,610,936	-	15.2%	(1,360)	190,436	\$23.57	\$18.07	\$20.12
Marlton	2,481,145	-	12.7%	42,853	72,794	\$20.20	\$16.13	\$18.25
Moorestown	1,047,939	-	20.4%	3,700	(38,776)	\$25.25	\$17.05	\$18.70
Mount Laurel	5,886,235	-	11.8%	15,210	171,624	\$19.55	\$17.17	\$18.36
Pennsauken/Camden	2,442,317	-	11.3%	(61,931)	(40,882)	\$28.60	\$20.50	\$18.85
Voorhees/Gibbsboro	1,336,748	-	34.3%	62,256	44,717	\$26.25	\$20.15	\$20.51
Market	16,805,320	-	14.9%	60,728	399,913	\$21.14	\$17.76	\$19.07

Select Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
BL Manager LLC	Mt. Laurel	523 Fellowship Rd	Lease Expansion	30,240
Fox & Roach LP	Mt. Laurel	1025 Briggs Rd	Lease Extension	6,165
BBC Law	Marlton	525 W Lincoln Dr	Direct Lease	2,890
The Cooper Health System	Cherry Hill	20 Brace Rd	Direct Lease	2,800

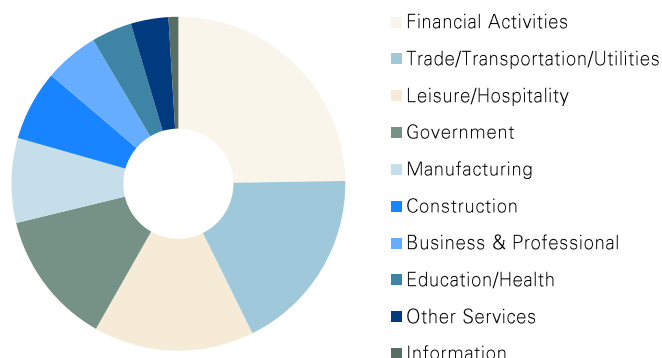
Economic Conditions

The Federal Reserve increased interest rates multiple times in the fourth quarter of 2022 in an effort to lower inflation to its 2.0% target. Inflation and the economy have slightly softened, but unemployment is still historically low, especially in Southern New Jersey, which is 2.9%. Jobless claims are expected to increase in 2023 as the Reserve's tightening monetary policies are further implemented. Industries susceptible to interest rate increases, like construction and information, have already begun to show signs of weakening. In December 2022, the 12-month change in employment for these industries shrunk by 6.9% and 1.8%, respectively. Business and professional services grew by 13.6% during this time.

According to some economists, a tightening monetary policy will likely lead to some form of a recession in 2023; however, a tight labor market provides hope that its effects might be softer than they were in the Great Recession.

Employment by Industry

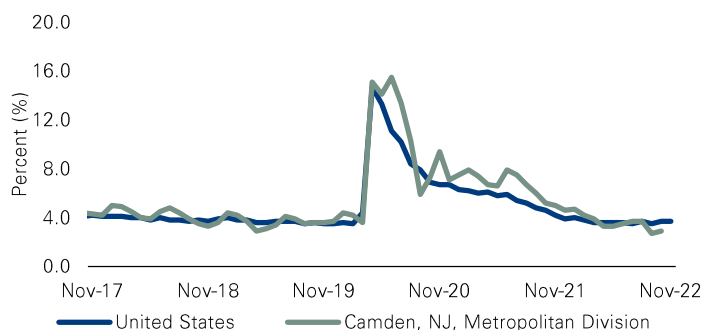
CAMDEN, NJ METROPOLITAN DIVISION, DECEMBER 2022 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics, December 2022.

Unemployment Rate

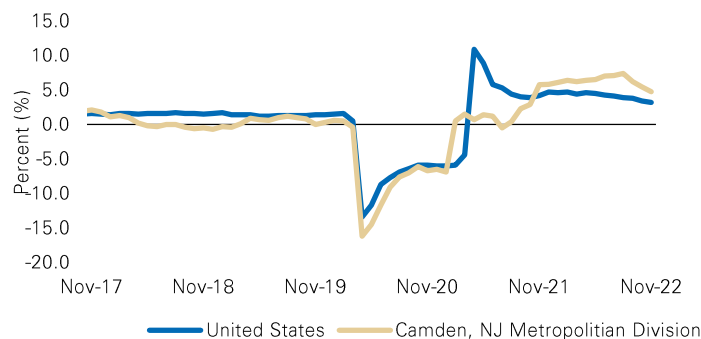
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, December 2022.

Payroll Employment (Total Nonfarm)

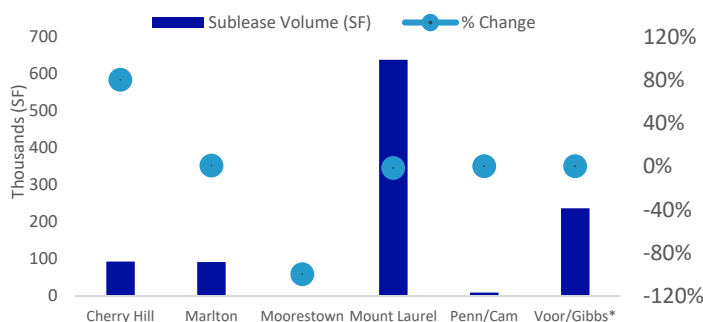
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, December 2022.

New Jersey Market Sublease Analysis

SQUARE FEET AND 12-MONTH % CHANGE, 4Q22

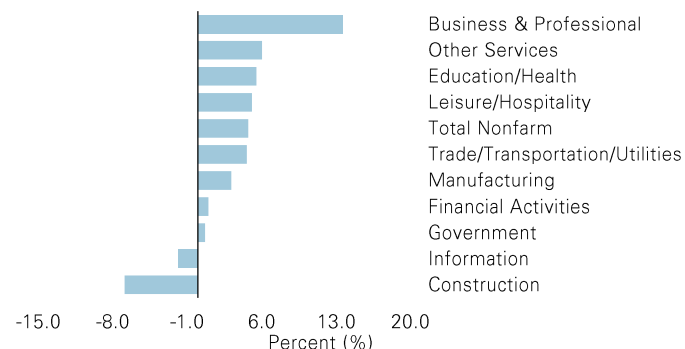


Source: Newmark Research, December 2022.

*Sublease space in Voorhees/Gibbsboro increased 4692.0% since 4Q21

Employment Growth by Industry, December 2022

CAMDEN, NJ METRO DIVISION, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, December 2022.

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